

**STATE OF CALIFORNIA  
DEPARTMENT OF INSURANCE  
45 Fremont Street, 21<sup>st</sup> Floor  
San Francisco, California 94105**

**RH 03026431**

**February 26, 2003**

**INITIAL STATEMENT OF REASONS  
REGARDING CALIFORNIA LOW COST AUTOMOBILE INSURANCE RATES**

**INTRODUCTION**

California Insurance Commissioner John Garamendi will hold a public hearing regarding the recommendation of the California Automobile Assigned Risk Plan ("CAARP") to increase the statutory premiums for the California Low Cost Automobile Insurance Pilot Programs.

Currently, the initial annual premiums set forth in Sections 11629.72 and 11629.92 of the California Insurance Code are \$450 per vehicle for Los Angeles County and \$410 per vehicle for the City and County of San Francisco. A 25 percent surcharge is added to the base rate for unmarried male drivers ages 19 through 24 years of age. However, newly-enacted low cost automobile insurance program legislation (2002 Cal. Stats., chapter 742, formerly SB 1427, Escutia), reduces the annual premiums to \$347 for Los Angeles County and \$314 for the City and County of San Francisco, effective March 1, 2003. This legislation authorizes the Commissioner to set the surcharge rate, in consultation with CAARP.

California Insurance Code Sections 11629.72(c) and 11629.92(c) provide that, annually, CAARP shall submit a proposed rate and surcharge to the Commissioner for approval. CAARP did so, proposing to increase the statutory rates to \$450 for Los Angeles County and \$410 for the City and County of San Francisco, while maintaining the 25 percent surcharge for certain drivers. Further details appear in the application on file with the Commissioner and available for review.

California Insurance Code Sections 11629.7 through 11629.84 establish, within the California Automobile Assigned Risk Plan, a low-cost automobile insurance pilot program for the County of Los Angeles. Sections 11629.9 through 11629.995 of the Insurance Code establish, within the California Automobile Assigned Risk Plan, a low-cost automobile insurance pilot program for the City and County of San Francisco.

Because the low cost automobile insurance pilot programs are established and administered through CAARP, established under Sections 11620-11627 of the California Insurance Code, CAARP procedures are applied to the low cost automobile insurance pilot programs where appropriate and not inconsistent with the low cost automobile insurance statutes. Pursuant to California Insurance Code Sections 11620 and 11624, the Commissioner approves rates for those obtaining coverage through the assigned risk plan. Before amending premium rates for CAARP, the Commissioner holds a public hearing.

For the low-cost automobile insurance pilot programs, California Insurance Code Sections 11629.7 and 11629.9 require the Commissioner, after a public hearing, to approve or issue a reasonable plan for the equitable apportionment, among insurers, of eligible persons residing in the County of Los Angeles and the City and County of San Francisco. California Code of Regulations, Title 10, Chapter 5, Section 2498.6 references the plan. This plan, approved by the Commissioner, contains rules and rates.

Therefore, the Commissioner is holding this hearing to consider the rate alternatives for the low-cost automobile insurance program.

#### STATEMENT OF SPECIFIC PURPOSE

Effective March 1, 2003, statutory premiums are reduced to \$347 for Los Angeles County and \$314 for the City and County of San Francisco, as amended by 2002 Cal. Stats., chapter 742.

California Insurance Code Sections 11629.72(c) and 11629.92(c) require that, annually, CAARP submit to the Commissioner loss and expense data, together with a proposed rate and surcharge for approval. CAARP has proposed to increase the statutory rates for the low-cost automobile insurance program from \$347 to \$450 for Los Angeles County and from \$314 to \$410 for the City and County of San Francisco. CAARP has further proposed to maintain the 25 percent surcharge for certain drivers. The statutes specify that rates shall be sufficient to cover losses incurred under policies issued under the pilot program and expenses. In assessing loss reserves, the Commissioner shall only allow loss reserves estimated from actual losses in the pilot programs or comparable data by a licensed statistical agent, adjusted to reflect coverage provided by the pilot programs. Rates shall be set so as to result in no subsidy of the program or subsidy of policyholders in one pilot program by policyholders in the other pilot program. In accordance with these rate-setting standards, the Commissioner is holding a hearing to consider CAARP's rate proposal and alternatives.

#### IDENTIFICATION OF STUDIES

The application relies upon the expertise of CAARP's technical staff. Other than the application and accompanying explanatory memorandum and exhibits, however, no studies have been submitted for this proceeding.

#### SPECIFIC ACTIONS, PROCEDURES, TECHNOLOGIES OR EQUIPMENT

Adoption of the proposed rate would not mandate the use of specific technologies or equipment.

#### REASONABLE ALTERNATIVES

The Commissioner invites public comments on the proposed rate and reasonable alternatives which would be as effective to carry out the statutory mandate and be less burdensome to affected persons and small businesses.

#### ECONOMIC IMPACT ON BUSINESS

The Commissioner has initially determined that the proposed rates will not have a significant adverse economic impact on businesses because the rates apply to private passenger automobile policies. The Commissioner invites interested parties to comment on whether the proposed rates will have a significant adverse economic impact on business.